

Speech by Liam Connellan, Director General, Confederation of Irish Industry, at CDEIF Conference, Lisbon, Friday, 4th July 1986

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### THE EUROPEAN CHALLENGE - THE IRISH EXPERIENCE

The three and a half million people in the Republic of Ireland comprise slightly over 1% of the total population of the European Community. When Ireland joined the EEC in 1973 our GDP per employee was 61% of the European average. This ratio had improved to 71% of the Community by 1985.

The main reason for our improved performance was that, despite the impact of two major international recessions, industry in Ireland expanded more rapidly than throughout the rest of Europe during our first 12 years of membership of the Community. Total employment in the Irish economy also grew faster than in the EEC, but unemployment increased because our population is almost half a million higher than in 1973.

The structure of our economy has changed dramatically so that today about 40% of national output is produced by industry - the same as the European average.

Since 1973 there has been a marked change in the structure of industry in Ireland. The share of fast growing industry such as electronics and chemicals has increased rapidly; the share of established industries such as food, drink and tobacco has slipped slightly; while the share of traditional sectors has fallen. This has not been an exclusively Irish phenomenon but also one which occurred in the United States, Japan, and in the European Community as a whole.

Industry in Ireland has become more specialised. Last year the top five product groups - computers, chemicals, meat, dairy products, and electrical machinery - accounted for over 50% of industrial output.

Although Ireland produces less than 1% of total European industrial production, it is a much more powerful force in particular sectors of industry, and in some specialist areas we are among the largest producers in Europe. Ireland accounts for just over 5% of total Community milk output; over 7% of Europe's beef, and 3% of Europe's computers.

More specifically, Ireland has the largest lead crystal glass plant in Europe, one of the largest breweries; the largest manufacturer of industrial diamonds, the largest single product cheese plant, the largest beef operator, and an alumina plant on a par with the largest in the European Community.

Although much has been achieved, much remains to be done. Irish living standards and employment levels remain below those in most other Member States because our industrial sector is still far too small. For example, Denmark with a population one and a half times larger has an industrial output more than three times as great. The expansion of industry must be the central thrust of national economic policy. No country has succeeded in creating high living standards and sustainable employment without a proportionately large and dynamic industrial sector.

We have an urgent need to expand our industrial structure so as to reduce our current level of unemployment and provide work opportunities for the large numbers of young people coming on the job market each year. The scale of this task is such that we need to think in terms of doubling our industrial output in the shortest possible period of time.

#### MARKET DIVERSIFICATION

Since 1973 there has been a very remarkable switch in the pattern of Ireland's foreign trade. Exports have become much more important. In 1973 Irish industry exported 35% of its normal output; last year that proportion had increased to 63%.

In 1973 the United Kingdom accounted for 56% of Irish exports and Continental EEC countries accounted for 12%. Last year for the first time in our modern industrial history, Irish industry exported more products to Continental EEC countries than to the United Kingdom. This change occurred despite a steady growth in the volume of our exports to Britain. It occurred because prior to 1973 Irish agricultural products were denied access to Continental markets, and because new foreign-owned industries established in Ireland sell far more to the Continent where purchasing power is much greater than in

Britain. On present trends it seems likely that, within 10 years, the German market alone will be as important as the British market for Irish exporters.

#### INTERCHANGE OF PEOPLE

The growing internationalisation of Irish industry has major implications for the education and training of those who work in industry. The effective industrial executive, marketer, or professional, will require competence in modern European languages, particularly German, French, Italian and Spanish. The physical diversification of trade which has occurred to-date has been due mainly to the fact that many foreign-owned companies had well-established marketing outlets in particular countries. In this way a framework has been constructed from which much better personal communications can be developed.

Over the last decade there has been a rapid growth of Continental tourists to Ireland and Irish tourists to the Continent. Each day about 40 planes leave Irish airports for Continental destinations. Most of the major Continental capital cities have hundreds of Irish-born residents. In Ireland there are hundreds of residents from most EEC Member States.

However, there is need for even greater concentration of effort to increase our knowledge of Continental languages, and our understanding of the different cultures of the Community. A marketing executive who speaks German and can discuss the merits of his product with a German buyer is far more likely to be effective than one who has to act through an interpreter. A product development engineer who cannot share ideas with research colleagues in France is cut off from a major source of new ideas.

Two years ago the Confederation established a European Orientation Programme for young graduates through which they are sponsored by member companies, and spend one year working in a similar firm in Continental Europe. Already 40 young graduates have completed this Programme and are now back working in Irish industry. A second Programme is currently under way, and the number of participating firms is increasing steadily. Some member firms of the Confederation have also taken the initiative in placing young Irish graduates for training and work experience on the Continent.

#### EUROPEAN MONETARY SYSTEM

In 1979 Irish industry was strongly in favour of Ireland joining the European Monetary System. It was a

commitment to a zone of monetary stability in Europe and offered the prospect of lower inflation and lower interest rates. It has taken some years to adjust our expectations and our attitudes to the more rigid disciplines of EMS membership but in the second half of last year we did eventually bring our inflation rate down to the European average and Irish interest rates for the first time fell to 2% below those in Britain.

#### INFRASTRUCTURE

Inefficiencies within the economy are an unwelcome cost burden on the sectors of the economy exposed to international competition. This applies to the efficiency of all sheltered services, and the quality and cost of infrastructure. Over £1,000 million has been invested in the telecommunications system in the last five years. The quality of the system is improving rapidly, and the waiting list for telephones is now less than half that two years ago. More firms are now using computer-to-computer communications between Ireland and the Continent; telecopiers, data links for word processors, and videotext terminals are commonplace. Teleconferencing facilities have been installed in our major cities, and the launching of a satellite under franchise from the Irish Government is less than three years away. All of these developments are bringing closer the development of a highly sophisticated information network system between the factories, businesses, and homes of the European Community. These developments are particularly important for an island nation as they help to remove any perceptions of remoteness.

Much greater attention must be given to the development of international transport facilities to and from Ireland. Each year over 3 million people use our airports and more than another 3 million travel by sea. Greater frequency and lower cost of access transport will improve industrial and commercial competitiveness. Assistance in developing these services should be an integral part of European regional policy.

The Irish energy network remain isolated from the rest of Europe. Natural gas can be pumped from Siberia to France, and from Algeria to Denmark.

I would also like to see our electricity grid linked to the European grid. Electricity is now an internationally traded commodity, and inter-connectors have been established between most Western European countries. Off-peak electricity from French nuclear plants has recently been offered to Britain at a fraction of British costs.

In summary, our infrastructure must be developed in the context of the broader European network, and where possible integrated with that of other EEC Member States.

#### JOINT VENTURES

There are 850 foreign-owned companies operating in Ireland. Over 400 of these have parent firms in other Member States of the Community; about 325 are American-owned. The existence of these companies in Ireland offers an opportunity to more than 4,000 Irish-owned manufacturing firms to establish close working relationships, and joint ventures in areas such as sub-contracting, marketing or research and development.

Many Irish manufacturers have the potential to set up joint arrangements with similar sized firms on the Continent whereby production, research and marketing activities can be shared according to their respective strengths. This approach can be a shortcut to carving out a specialist market niche in the Community. Last year 50 agreements were formed between Irish companies and overseas firms in order to exploit better the Community market.

#### EEC IMPACT ON INDUSTRIAL OUTPUT

Ireland's membership of the European Community has had a favourable impact on industrial output for a number of reasons. It made inward investment more attractive from European and non-European firms alike. In 1981 the European Commission agreed to a standard 10% tax rate for Irish manufacturing companies to replace a combination of 50% tax on profits earned from home market sales and zero tax on profits earned from exports. This fiscal concession which it has been agreed will be maintained until the year 2000, in combination with, financial grants, an international language, low relative labour costs, a well developed technical education system, and political stability have increased the attraction of investing in Ireland.

Industry has gained also because of freedom of access to Community markets. This was particularly important in the case of agricultural products such as meat and milk.

EEC structural funds have also made a major contribution to the development of the Irish economy. The Common Agricultural Policy is by far the most important of these in supporting agricultural incomes and, therefore, demand throughout the economy. The net transfer of resources from the Community to Ireland in 1985 was 5.8% of GDP - broadly equivalent to the importance of oil in

the British economy.

Other EEC funds have also made a major contribution to the development of infrastructure such as roads and telecommunications, and to the creation of a better trained workforce.

The Irish Business Bureau, under the directorship of our permanent delegate to UNICE, has played an important role in assisting Irish firms to avail of various opportunities for participation in EEC funding. For example, food processing firms are given advice and assistance in availing of FEOGA incentives; member firms are assisted in submitting applications for social fund assistance to upgrade the quality of their labour force; engineering consultants are given advice on how to obtain work in ACP countries under the terms of the Lome Convention; and other firms are encouraged to participate in joint EEC research projects such as ESPRIT, RACE, BRITE, and Energy Demonstration Projects.

It may also be of interest that during the last two years a number of investment incentives have been introduced by the Irish Government to encourage personal investment in industry. These include tax allowances for direct investment in private manufacturing firms (18,000 ECUs); tax allowances for personal investment in research and development partnerships (18,000 ECUs); tax allowances for employee share allocations up to 3,500 ECUs per annum; tax allowances for the purchase of shares by employees up to 530 ECUs per annum and the availability of a maximum personal tax on manufacturing dividends of 24%. It is hoped that these measures will encourage a much higher level of personal investment in productive enterprise.

#### CONCLUSION

The changes which have occurred since we joined the European Community set the scene for further significant developments over the next seven years. In this time the European Community plans to create one truly large European market which is free of all tariff and non-tariff barriers. In this time-span too we should aim to double the output of Irish industry in response to the demands and opportunities in this the largest and most prosperous single market in the world.

**OVERSEAS FIRMS IN IRELAND  
1984**

<b>Ownership</b>	<b>Number</b>
EEC	410
US	325
Japan	11
Other	108
<b>Total</b>	<b>854</b>

**POSITIVE FACTORS**

**FISCAL — 10% TAX  
FINANCIAL GRANTS  
INTERNATIONAL LANGUAGE  
RELATIVE LABOUR COSTS  
POLITICAL STABILITY  
TECHNICAL EDUCATION**

**EEC RECEIPTS/PAYMENTS 1985  
% of GDP**

**RECEIPTS**

**CAP 5.3%  
SOCIAL FUND 1.0%  
REGIONAL 0.6%  
OTHER 0.1%**

**7.0%**

**PAYMENTS**

**1.2%  
NET BENEFIT 5.8%**

**PERSONAL INVESTMENT INCENTIVES**

**18000 E.C.U. Manufacturing  
18000 E.C.U. R + D Partnership  
3500 E.C.U. Employee Share Allocation  
530 E.C.U. Employee Share Purchase  
24% Total Tax Manuf. Dividends**